Statutory-Basis Financial Statements

Financial Guaranty Insurance Company
March 31, 2020

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Contents

Financial Guaranty Insurance Company

Statutory-Basis Balance Sheets

(Dollars in Thousands, Except per Share Amounts)

	March 31, 2020 (Unaudited)	December 31, 2019
Admitted assets		
Bonds	**$ 1,983,715**	$ 2,020,221
Common stock – investment in subsidiaries	**33,200**	33,200
Surplus notes	**8,856**	8,858
Short-term investments	**6,290**	601
Other invested assets	**61,591**	38,764
Receivable for securities sold	**1**	9
Cash and cash equivalents	**100,607**	90,997
Total cash and invested assets	**2,194,260**	2,192,650
Accrued investment income	**17,725**	18,833
Federal income tax receivable	**5,752**	2,876
Reinsurance receivable	**35**	41
Receivable from parent and subsidiaries	**307**	61
Other assets	**–**	8
Total admitted assets	**$ 2,218,079**	$ 2,214,469
Liabilities and capital and surplus		
Liabilities:		
Losses	**$ 1,649,781**	$ 1,678,683
Loss adjustment expenses	**11,336**	9,408
Ceded reinsurance premiums payable	**146**	1
Unearned premiums	**36,220**	36,112
Contingency reserves	**395,165**	390,154
Payable for securities purchased	**42,166**	6,155
Other liabilities	**16,865**	27,556
Total liabilities	**2,151,679**	2,148,069
Capital and surplus:		
Common stock, par value $1,500 per share; 10,000 shares authorized, issued, and outstanding	**15,000**	15,000
Redeemable preferred stock, par value $1,000 per share; 3,000 shares authorized, issued and outstanding	**300,000**	300,000
Unassigned deficit	**(248,600)**	(248,600)
Total capital and surplus	**66,400**	66,400
Total liabilities and capital and surplus	**$ 2,218,079**	$ 2,214,469

See accompanying notes.

Financial Guaranty Insurance Company

Statutory-Basis Statements of Operations and Changes in Surplus
(Unaudited)
(Dollars in Thousands)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Premiums earned	**$ 1,529**	$ 1,744
Losses released (incurred)	**9,122**	(19,017)
Loss adjustment expenses incurred	**(3,393)**	(15)
Other underwriting expenses	**(6,948)**	(6,739)
Ceding commission income	**63**	64
Underwriting gain (loss)	**373**	(23,963)
Net investment income	**19,436**	19,253
Net realized capital (losses) gains, net of tax expense of $560 and $4,667 for the three months ended March 31, 2020 and 2019, respectively	**(6,431)**	17,556
Net investment gain	**13,005**	36,809
Other loss	**(3,798)**	(8,415)
Income before all other federal income taxes	**9,580**	4,431
Federal income tax benefit	**(3,436)**	(5,386)
Net income	**$ 13,016**	$ 9,817
Changes in surplus		
Surplus as regards policyholders, beginning of period	**$ 66,400**	$ 66,400
Net income	**13,016**	9,817
Change in net unrealized capital gains, net of tax benefit of $1,675 and $412 for the three months ended March 31, 2020 and 2019, respectively	**(6,301)**	(1,550)
Change in foreign exchange adjustment	**–**	(2)
Change in net deferred income tax	**(4,551)**	(1,131)
Change in non-admitted assets	**2,847**	770
Change in contingency reserves	**(5,011)**	(7,904)
Surplus as regards policyholders, end of period	**$ 66,400**	$ 66,400

See accompanying notes.

Financial Guaranty Insurance Company

Statutory-Basis Statements of Cash Flows
(Unaudited)
(Dollars in Thousands)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Operations		
Premiums collected, net of reinsurance	**$ 1,935**	$ 1,905
Losses paid, net	**(19,780)**	(16,780)
Loss adjustment expenses paid, net	**(1,465)**	(2,487)
Underwriting expenses paid	**(17,779)**	(12,591)
Ceding commission received	**63**	65
Net investment income received	**22,276**	20,601
Other income received	**2,874**	3,505
Net cash used in operations	**(11,876)**	(5,782)
Investment activities		
Proceeds from sales, maturities, or repayments of investments:		
Bonds	**118,465**	124,524
Common stock	**–**	135,559
Other invested assets	**3,606**	3,161
Miscellaneous proceeds	**33,711**	3,762
Total investment proceeds	**155,782**	267,006
Cost of investments acquired:		
Bonds	**(97,542)**	(208,879)
Other invested assets	**(30,797)**	(18,079)
Total investments acquired	**(128,339)**	(226,958)
Net cash provided by investment activities	**27,443**	40,048
Financing and miscellaneous activities		
Other cash (applied) provided	**(268)**	505
Net increase in cash, cash equivalents and short-term investments	**15,299**	34,771
Cash, cash equivalents and short-term investments:		
Beginning of period	**91,598**	41,923
End of period	**$ 106,897**	$ 76,694

See accompanying notes.

1. Organization and Background

Financial Guaranty Insurance Company (the "Company" or "FGIC"), a New York stock insurance corporation, is a wholly owned subsidiary of FGIC Corporation ("FGIC Corp."), a Delaware corporation which emerged from a proceeding under Chapter 11 of the United States Bankruptcy Code on April 19, 2013.

FGIC previously issued financial guaranty insurance policies insuring public finance, structured finance and other obligations, but it is no longer engaged in the business of writing new insurance policies. FGIC operates in accordance with the terms and conditions set forth in the Rehabilitation Plan (defined below). FGIC's primary regulator is the New York State Department of Financial Services (the "NYSDFS"). FGIC UK Limited ("FGIC UK"), a wholly owned United Kingdom insurance subsidiary of FGIC, previously issued financial guaranties covering public finance, structured finance and other obligations, but it is no longer engaged in the business of writing new financial guaranties. FGIC UK's primary regulator is the UK Prudential Regulation Authority.

On June 28, 2012, the Supreme Court of the State of New York (the "Rehabilitation Court") issued an order pursuant to Article 74 of the New York Insurance Law (the "NYIL") placing FGIC in rehabilitation and appointing the Superintendent of Financial Services of the State of New York as FGIC's rehabilitator.

On June 11, 2013, the Rehabilitation Court approved the First Amended Plan of Rehabilitation for FGIC, dated June 4, 2013, together with all exhibits and the plan supplement thereto (as the same may be amended from time to time, collectively, the "Rehabilitation Plan") in an order issued pursuant to Article 74 of the NYIL. The Rehabilitation Plan became effective on August 19, 2013 (the "Effective Date"), whereupon FGIC's rehabilitation proceeding terminated. By notice dated on the Effective Date, FGIC's rehabilitator set the initial cash payment percentage ("CPP") at 17%.

On the Effective Date, FGIC emerged from its rehabilitation proceeding as a solvent insurance company under the NYIL, with its policies restructured in a manner intended to ensure it remains solvent and the Rehabilitation Plan became the exclusive means for resolving and paying (i) all policy claims, whenever arising, (ii) all other claims arising during, or relating to, the period prior to the Effective Date and (iii) all equity interests in FGIC in existence as of the commencement date of FGIC's rehabilitation proceeding (June 28, 2012), in each case other than claims (including policy claims) paid in full by FGIC prior to such date. Claims arising during or relating to the period on and after the Effective Date (other than policy claims) are not covered by the Rehabilitation Plan and will be resolved and paid by FGIC in the ordinary course of business.

1. Organization and Background (continued)

As of the Effective Date, any and all policies in force as of the Effective Date (except for certain policies that were novated on that date) were automatically modified by the Rehabilitation Plan.

The Rehabilitation Plan, including the restructured policy terms attached to the Rehabilitation Plan as Exhibit B (the "Restructured Policy Terms"), supersedes any and all provisions of each policy that are inconsistent with the Rehabilitation Plan. FGIC is responsible for administering, reviewing, verifying, reconciling, objecting to, compromising or otherwise resolving all claims (including policy claims) not resolved prior to the Effective Date, in each case in compliance with the Rehabilitation Plan and any applicable guidelines the NYSDFS has issued or may issue to carry out the purposes and effects of the Rehabilitation Plan ("NYSDFS Guidelines").

With respect to any policy claim permitted by FGIC, pursuant to the Rehabilitation Plan and the applicable policy (as modified by the Rehabilitation Plan), FGIC is obligated to pay in cash to the applicable policy payee only an upfront amount equal to the product of the then-existing CPP and the amount of such permitted policy claim (subject to any setoff rights FGIC may have). The portion of such permitted policy claim not paid or deemed to be paid by FGIC generally comprises a deferred payment obligation ("DPO") with respect to the applicable policy. The DPO with respect to any policy generally represents the aggregate amount of all permitted policy claims under such policy minus the aggregate amount paid, or deemed to be paid, in cash by FGIC with respect to such policy (other than DPO Accretion, defined below) from and after the Effective Date, subject to further adjustments as provided in the Rehabilitation Plan. From and after the Effective Date, each policy with an outstanding DPO accrues an amount ("DPO Accretion") as described in Note 3, Significant Accounting Policies, under the sub-heading "Loss Reserves – DPO Accretion." The DPO for any policy and any related DPO Accretion shall only be payable by FGIC when, if and to the extent provided in the Restructured Policy Terms and the Rehabilitation Plan. In the absence of an upward adjustment of the CPP, FGIC shall have no obligation to pay any portion of any DPO or DPO Accretion.

FGIC is required to re-evaluate the CPP (at least annually) pursuant to the procedures set forth in the Restructured Policy Terms to determine whether the CPP should remain the same or be adjusted upward or downward (each, a "CPP Revaluation"). All CPP Revaluations require review and approval by the board of directors of FGIC, and any change in the CPP (among other things) requires the approval of the NYSDFS. In October 2019, in connection with FGIC's annual CPP Revaluation for 2019, the NYSDFS approved an upward adjustment to the CPP from 38.5% to 43.5%.

1. Organization and Background (continued)

The percentage of permitted policy claims that FGIC ultimately pays in cash in accordance with the Rehabilitation Plan, and the timing of any such payments, are subject to various factors and the outcome of future events, including the performance of FGIC's insured and investment portfolios and the results of FGIC's litigation and other loss mitigation efforts, and no assurance can be given with respect to the amount of any such percentage or the timing of any such payments. Based on the magnitude of FGIC's accrued and projected policy claims, while the CPP may further increase over time, FGIC expects to make payments in cash pursuant to the Rehabilitation Plan of only a fractional portion of its permitted policy claims and it does not expect to make any payments pursuant to the Rehabilitation Plan with respect to non-policy claims or equity interests.

References to and descriptions of provisions of the Restructured Policy Terms, the Rehabilitation Plan (and related agreements) and orders of the Rehabilitation Court included in these financial statements are merely summaries thereof, and do not contain all information necessary to fully understand such provisions and orders. Please refer to the specific terms, requirements and conditions of the Restructured Policy Terms, the Rehabilitation Plan (and related agreements) and orders of the Rehabilitation Court for a full understanding thereof, which in all cases shall govern, rather than any summary description contained in these financial statements.

2. Recent Developments

Uncertainties Arising from COVID-19

A coronavirus disease, COVID-19, began to spread globally in early 2020 and has been declared a pandemic by the World Health Organization. Its emergence and reactions to it have already had a profound effect on both the domestic and global economies and financial markets. The short- and long-term impacts of the COVID-19 pandemic, and the true extent of such impacts, are by their very nature uncertain and will be determined by many factors, including the effectiveness of government and other health measures to contain and prevent the spread of the virus and the effectiveness of economic stimulus, emergency relief, and other government programs, initiatives and actions implemented or taken to mitigate the economic, financial and other disruptions caused by the COVID-19 pandemic. At this time, however, there remains considerable uncertainty as to how long the COVID-19 pandemic will last and as to the extent and duration of the economic, financial and other disruptions caused by the pandemic. Consequently, there remains considerable uncertainty relating to precisely how the COVID-19 pandemic will impact the Company, and whether or to what extent any such impact will be temporary or lasting.

2. Recent Developments (continued)

The Company is working with its important service providers to ensure continuity of services during the COVID-19 pandemic, and, to date, the Company's business operations have not been disrupted nor adversely impacted in any material respect. To augment the Company's regular processes for reviewing its insured and investment portfolios, the Company is implementing plans to assess and monitor the impact that the COVID-19 pandemic may have on these portfolios. These activities are subject to supervision and oversight by the Board and management.

3. Significant Accounting Policies

The accompanying financial statements of the Company have been prepared in conformity with statutory accounting practices prescribed or permitted by the NYSDFS as well as those accounting practices detailed in NYSDFS Guidelines, as described below ("SAP"). The preparation of financial statements in conformity with SAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates, and those differences could be material. Operating results for the three months ended March 31, 2020 are not necessarily indicative of results that may be expected for the year ending December 31, 2020. These unaudited interim financial statements should be read in conjunction with the audited Statutory Basis Financial Statements for the year ended December 31, 2019, including the accompanying notes. The December 31, 2019 balance sheet was derived from audited financial statements but does not include all disclosures required by SAP for annual periods.

3. Significant Accounting Policies (continued)

SAP differs in some respects from accounting principles generally accepted in the United States ("GAAP"). The effects of the variances from GAAP on the accompanying statutory-basis financial statements have not been determined as of and for the three months ended March 31, 2020 and 2019, but are presumed to be material. Significant accounting policies and variances from GAAP, where applicable, are as follows:

NYSDFS Guidelines

Pursuant to the provisions of the Rehabilitation Plan, the NYSDFS has issued NYSDFS Guidelines that define certain accounting practices for FGIC for reporting periods ending on or after the Effective Date. In accordance with such NYSDFS Guidelines, for reporting periods ending on or after the Effective Date, FGIC records loss reserves at the applicable reporting date in an amount equal to the excess of (i) the amount of FGIC's admitted assets minus FGIC's minimum required statutory surplus to policyholders at the reporting date (the "Minimum Surplus Amount," currently $66.4 million) over (ii) the sum of FGIC's statutory reserves excluding loss reserves (e.g., unearned premiums, contingency reserves, loss adjustment expense reserves) and other liabilities. In accordance with such NYSDFS Guidelines, the loss reserve amount comprises the total amount of (i) the sum, net of reinsurance, of (x) the total amount of all policy claims submitted to FGIC in accordance with the Rehabilitation Plan that are unpaid (excluding any portions of such policy claims that are being disputed by FGIC) and (y) the net present value of the total amount of all policy claims that the Company expects to receive in the future in accordance with the Rehabilitation Plan (using the prescribed statutory discount rate which is based on the average rate of return on FGIC's admitted assets) (such sum is referred to as the "Claims Reserve"), (ii) the DPO for all policies at such reporting date and (iii) the DPO Accretion for all policies at such reporting date, minus an adjustment (the "Policy Revision Adjustment") in an amount that will permit FGIC to report a surplus to policyholders at such reporting date equal to the Minimum Surplus Amount (See also Note 7, Loss Reserves).

Cash and Cash Equivalents

The Company considers all bank deposits and all certificates of deposit with maturities of one year or less at the date of purchase to be cash. The Company considers highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less to be cash equivalents. Cash and cash equivalents other than money market mutual funds are carried at cost, which approximates fair value. Money market mutual funds are recorded at fair

3. Significant Accounting Policies (continued)

value. Changes in carrying values of money market mutual funds are recorded as changes in unrealized capital gains/losses, a component of surplus. Under GAAP, these securities are adjusted to net asset value and included in cash and cash equivalents.

Investments

Investments are valued in accordance with the requirements of the National Association of Insurance Commissioners (“NAIC”).

Bonds with an NAIC designation of 1 or 2 determined by the Securities Valuation Office (“SVO”) are stated at amortized cost, with premiums and discounts amortized to net income using the effective interest method over the remaining term of the securities. Bonds with an NAIC designation of 3 through 6 determined by the SVO are stated at the lower of amortized cost or fair value. Under GAAP, bonds are designated at purchase as either held-to-maturity, available-for-sale or trading. Bonds designated as held-to-maturity are reported at amortized cost. Bonds designated as available-for-sale are reported at fair value with unrealized gains and losses reported in stockholders’ equity, net of tax. Bonds designated as trading are reported at fair value with unrealized gains and losses reported in net investment income.

Common stocks include shares of mutual funds that invest principally in common stocks. Common stocks (excluding investments in common stock of subsidiary, controlled and affiliated (“SCA”) entities (which are included in the balance sheet as common stock – investment in subsidiaries)) are recorded at fair value. Changes in carrying values are recorded as changes in unrealized capital gains/losses, a component of surplus, net of tax. Dividends are reported in net investment income. Under GAAP, investments in such common stocks are designated at purchase as either available-for-sale or trading. Common stocks designated as available-for-sale are reported at fair value with unrealized gains or losses reported as a component of stockholders’ equity, net of tax. Common stocks designated as trading are reported at fair value with unrealized gains and losses reported in net investment income.

Under SAP, investments in common stock of SCA entities are recorded based on the audited underlying equity adjusted to a statutory basis to the extent admissible under Statement of Statutory Accounting Principles (“SSAP”) 97, *Investments in Subsidiary, Controlled, and Affiliated Entities,* and subject to applicable limitations under the NYIL. One such limit restricts the amount reported as investments in common stock of SCA entities to 50% of the Company’s statutory surplus to policyholders. Under SAP, the reporting entity cannot admit as an asset the

3. Significant Accounting Policies (continued)

investment in an SCA entity for which audited financial statements are not prepared. Changes in the values of SCA entities are recorded as unrealized gains or losses and reported as a component of unassigned deficit. Under GAAP, SCA entities meeting certain criteria are consolidated with the Company.

Surplus notes with an NAIC designation equivalent of 1 or 2 as designated by an NAIC credit rating provider are stated at amortized cost, with premiums and discounts amortized to net income using the effective interest method over the remaining term of the notes. All other surplus notes are stated at the lower of amortized cost or fair value. If the issuer is subject to any order of liquidation, conservation, rehabilitation or any company action level event based on its risk-based capital, the surplus notes are non-admitted until such regulatory action ends. Under GAAP, these notes are stated at fair value.

Short-term investments are stated at amortized cost. Realized gains and losses on the sale of short-term investments are determined based on the specific identification method and are reflected in the determination of net income.

Included within bonds are loan-backed and structured securities (e.g., asset-backed and mortgage-backed securities), which are valued at amortized cost using the interest method, including anticipated prepayments. Prepayment assumptions are obtained from dealer surveys or internal estimates and are based on the current interest rate and economic environment. All such securities are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities using the retrospective method.

Other-Than-Temporary Impairments

For all investments in bonds (including loan-backed and structured securities) acquired prior to October 1, 2015, a decline in the fair value of any such security below its cost basis as of a reporting date is automatically treated as an other-than-temporary impairment (“OTTI”).

FGIC conducts an impairment review no less than quarterly for all investments in bonds (including loan-backed and structured securities) acquired on or after October 1, 2015, and for all investments in surplus notes and common stocks, in each case which have fair values lower than their respective cost bases as of the review date. The analysis of a security’s decline in value is performed at the lot level. FGIC first determines whether it intends to sell the security. For loan-backed and structured securities, FGIC also determines whether it is more likely than not that it will be unable

3. Significant Accounting Policies (continued)

to hold the security for a period of time to recover its amortized cost basis. The impairment for any security that FGIC determines it intends to sell or, in the case of loan-backed and structured securities, it is more likely than not that it will be unable to hold for a period of time to recover its amortized cost basis, is considered to be an OTTI.

For bonds (other than loan-backed and structured securities), surplus notes and common stocks that FGIC does not intend to sell, FGIC conducts a quantitative and qualitative impairment review that requires management to make numerous judgments, estimates and assumptions concerning relevant factors, such as (i) the magnitude and duration of the impairment, and (ii) possible explanations for the impairment (e.g., general interest rate, credit spread, market index movements; issuer-specific developments such as material negative credit events (e.g., actual or threatened bankruptcy or similar proceedings or debt restructurings); and security-specific developments such as existing or projected monetary and material non-monetary defaults and credit rating downgrades). Based on this review, FGIC determines whether the decline in fair value for any such security is temporary or an OTTI, with the decline in fair value for any such security that does not satisfy the specified quantitative or qualitative criteria treated as temporary.

If the decline in fair value for any such bond or surplus note is determined to be temporary, an unrealized loss is not recorded. If the decline in fair value for any common stock is determined to be temporary, FGIC records it as an unrealized loss, as common stocks are recorded at fair value. If the decline in fair value for any such bond, surplus note or common stock is treated as or determined to be an OTTI, the carrying value of such security is reduced to fair value as of the reporting date, establishing a new cost basis, with a charge to realized loss at the reporting date. Such realized losses are recorded through income and the new cost basis is not adjusted for subsequent recoveries in fair value. Amortization of any premium or discount from the date bonds or surplus notes are written down is based on the new cost basis.

For loan-backed and structured securities that the Company does not intend to sell and has not determined that it is unable to hold until recovery of their amortized cost bases, the Company estimates the cash flows expected to be collected over the term of each security as of the review date and calculates the present value of those expected cash flows using a discount rate equal to the original effective yield of the security, or in the case of floating rate securities, the then-current coupon. If the present value of future expected cash flows is less than the amortized cost basis of the security, the carrying value of such security is reduced to such present value as of the reporting date, establishing a new cost basis, with a charge to realized loss at such date for the entire reduction. Such realized losses are recorded through income and the new cost basis is not adjusted

3. Significant Accounting Policies (continued)

for subsequent recoveries in fair value. Amortization of premium or discount, as applicable, from the date the security is written down is based on the new cost basis.

Other Invested Assets

Other invested assets include FGIC-insured securities purchased by FGIC and securities or other non-cash assets purchased, received or recovered by FGIC, in connection with its loss mitigation efforts.

For FGIC-insured securities purchased in connection with loss mitigation efforts, the value of the security comprises two components: (i) the portion representing the value of FGIC’s insurance (the “Insurance Portion”) and (ii) the remaining portion representing the value of the security without giving credit for FGIC’s insurance (the “Non-Insurance Portion”). For each security, the Company estimates the value of the Insurance Portion using internally developed formulas, with the remainder of the value being the Non-Insurance Portion. The Insurance Portion is included in losses incurred and is deducted from the amortized cost and fair value of these FGIC-insured securities at the time of purchase and at each reporting date, respectively. For each FGIC-insured security purchased in connection with loss mitigation efforts, FGIC reduces the related Claims Reserve at each reporting date on a pro rata basis for the ratable portion of the securities purchased by FGIC. The reduction in Claims Reserves is also included in losses incurred.

The remaining Non-Insurance Portion of each purchased security is classified as other invested assets in the balance sheet and is subject to impairment analysis at each subsequent balance sheet date. Realized gains or losses and OTTI on the Non-Insurance Portion of these securities are recorded in other income. The amortized cost and fair value of these securities are shown excluding the Insurance Portion. Under SAP, these securities are carried at the lower of amortized cost or fair value as these securities have an NAIC designation of 3 through 6. Under GAAP, these securities are carried at fair value.

For securities or other non-cash assets purchased, received or recovered by FGIC in connection with its loss mitigation efforts, FGIC records the asset at the lower of cost or fair value at acquisition. FGIC generally does not consider the payment of claims to be included in the determination of the cost basis of assets purchased, received or recovered in connection with such claims. Realized gains or losses and OTTI on these assets are recorded in other income. Under SAP, these assets are carried at the lower of amortized cost or fair value. Under GAAP, these securities are carried at fair value.

3. Significant Accounting Policies (continued)

Fair Value Measurements

The Company discloses the fair value of its financial instruments in accordance with SSAP 100R, *Fair Value – Revised* ("SSAP 100R"), which requires the use of a fair value hierarchy with the highest priority given to quoted prices in active markets. The general disclosure requirements are for those items measured and reported at fair value in the balance sheet. Securities that are reported at amortized cost, but for which amortized cost equals fair value (such as a bond with a recognized OTTI on the reporting date) would not be included in the disclosures. SSAP 100R also requires certain disclosures of fair value measurements and valuation techniques, where practicable to determine, for financial instruments not carried at fair value in the balance sheet. SSAP 100R does not require companies to distinguish between recurring and non-recurring fair value measurements, which is required under GAAP.

Premium Revenue Recognition

For SAP, premiums collected in a single payment at policy inception are generally earned in proportion to the scheduled principal and interest payments over the legal lives of the insured bonds. Premiums collected periodically are reflected in income pro rata over the period covered by the premium payment. Under GAAP, premiums are earned in proportion to the amount of insurance protection provided over the expected life for homogeneous pools and over the legal life for non-homogeneous pools of policies. Ceded premiums are earned in a manner consistent with the underlying policies. Under SAP, the liability for unearned premiums is reflected net of reinsurance. Under GAAP, ceded unearned premiums are reported as an asset. When an obligation insured by the Company is refunded prior to the end of the expected policy coverage period, any remaining unearned premium is recognized at that time. A refunding occurs when an insured obligation is repaid or retired in full or legally defeased.

Non-Admitted Assets

Certain assets are charged directly against surplus but are reflected as assets under GAAP. Such assets principally include adjusted gross deferred tax assets and property and equipment.

3. Significant Accounting Policies (continued)

Loss Reserves

Loss reserves comprise the total amount of (i) the Claims Reserve, (ii) the DPO for all policies, and (iii) the DPO Accretion for all policies, minus the Policy Revision Adjustment. The Policy Revision Adjustment is prescribed by NYSDFS Guidelines and reflects the reduction in the loss reserve components necessary to reflect a Minimum Surplus Amount of $66.4 million (see "NYSDFS Guidelines" above). Under GAAP, unpaid losses are reported on a gross basis (i.e., before reinsurance), and are discounted based on the risk-free rate for the anticipated shortfall in excess of the related unearned premium revenue, and the Policy Revision Adjustment is not recognized. The Company's loss reserves are disclosed in Note 7, Loss Reserves. The Company's losses incurred (released) for any reporting period equal the sum of the total Claims Reserve incurred (released), DPO Accretion for the period, and decreases (increases) in the Policy Reserve Adjustment.

Claims Reserve

The Claims Reserve is calculated on a policy-by-policy basis, net of reinsurance, as of the reporting date for each policy for which a payment default on an underlying insured obligation has occurred or is probable and the loss can be reasonably estimated. The Claims Reserve is determined for each policy using internally developed cash flow projection models or other methods for estimating losses and recoveries, calculated on a net present value basis using FGIC's prescribed statutory discount rate. The Claims Reserve represents the total undisputed amount of all policy claims submitted to the Company that have not yet been permitted and paid (or deemed paid) by the Company in accordance with the Rehabilitation Plan, plus an estimate of the total amount of policy claims that the Company expects to receive in the future, less an estimate of the total amount that the Company expects to recover in the future in respect of policy claims paid (or deemed paid) by the Company prior to such recovery. The Company reduces the Claims Reserve to give effect to FGIC-insured securities purchased by FGIC (or for which FGIC has effectively stripped its insurance) in connection with loss mitigation efforts. The Company may increase the Claims Reserve to reflect potential obligations it may have under the Rehabilitation Plan in respect of certain cash reimbursements it has received.

3. Significant Accounting Policies (continued)

DPO

When FGIC pays (or is deemed to have paid) in cash the CPP of a permitted policy claim, the remaining unpaid balance of such permitted policy claim is added to the DPO under the related policy.

If, as a result of any CPP Revaluation, the CPP is adjusted upward, FGIC is obligated to pay the applicable policy payee in respect of the DPO under each policy an amount, determined in accordance with the Rehabilitation Plan, to true up the amounts of cash previously paid (or deemed to have been paid) by FGIC in respect of permitted policy claims paid at the prior CPP, which payment will generally reduce the DPO by an equal amount.

FGIC does not reduce the DPO or DPO Accretion balance recorded under any policy to give effect to FGIC-insured securities purchased by FGIC (or for which FGIC has effectively stripped its insurance) in connection with loss mitigation efforts. In the event of any subsequent CPP increase, FGIC, as the holder of such securities or stripped portions, would be entitled to receive a ratable portion of the related DPO and DPO Accretion payments payable under such policy.

DPO Accretion

Under the Restructured Policy Terms, each policy with an outstanding DPO accrues DPO Accretion in accordance with the Rehabilitation Plan based on such DPO at a rate of 3% per annum (on a daily basis on the basis of a 365-day year). DPO Accretion is calculated using the DPO with respect to the applicable policy as of the preceding June 30 or, with respect to the first year in which there is a DPO under such policy and until the next June 30, the first day on or after the Effective Date on which the DPO exists (the “First Payment Date”). DPO Accretion for any policy with a DPO commences on the First Payment Date for such policy and continues until such time (if ever) as the DPO for such policy is permanently reduced to zero. All DPO Accretion is calculated on a simple basis rather than a compound basis (i.e., no DPO Accretion accretes based on accumulated DPO Accretion). No DPO Accretion is added to a DPO, but is recorded separately. If, as a result of any CPP Revaluation, the CPP is adjusted upward, FGIC will pay in cash to the applicable policy payee a portion of the DPO Accretion under each policy having a DPO in an amount determined in accordance with the Rehabilitation Plan, which will reduce the DPO Accretion balance.

3. Significant Accounting Policies (continued)

Loss Adjustment Expense Reserve

A reserve for loss adjustment expense is recorded as a liability on the balance sheet. The loss adjustment expense reserve represents management's best estimate of the ultimate future net cost, determined using internally developed estimates, of the efforts involved in managing and mitigating existing and future policy claims. Such loss adjustment expense reserve is not subject to a Policy Revision Adjustment. The Company's loss adjustment expense reserve is disclosed in Note 8, Loss Adjustment Expense Reserve.

Contingency Reserves

Contingency reserves are computed on the basis of statutory requirements for the security of all policyholders, regardless of whether loss contingencies actually exist. The Company establishes contingency reserves in accordance with the NYIL, which is consistent with the requirements of SSAP 60, *Financial Guaranty Insurance*. Changes in the contingency reserve are charged directly to surplus. Under GAAP, contingency reserves are not required.

During 2019, the Company was granted permission by the NYSDFS to decrease contingency reserves by $1.1 million.

Federal Income Taxes

Deferred tax assets and liabilities are recognized to reflect the tax impact attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using statutory tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled and are recorded as a component of surplus. Under SAP and GAAP, a valuation allowance is established for deferred tax assets that are not expected to be realized. Under SAP, a net deferred tax asset is subject to limitations and may be non-admitted.

3. Significant Accounting Policies (continued)

Reinsurance

A liability is recorded for uncollateralized amounts due from unauthorized reinsurers. Changes in this liability are charged or credited directly to unassigned surplus. Amounts due from unauthorized reinsurers that are secured by letters of credit or trust agreements are not included in this liability. Under GAAP, an allowance for amounts deemed uncollectible would be established through a charge to earnings.

Ceded loss reserves are calculated as reductions of the related gross Claims Reserves rather than assets, as would be required under GAAP. Prospective ceded losses are accounted for on a basis consistent with that used in accounting for the original policies issued, the terms of the reinsurance contracts, and the terms of the Rehabilitation Plan, which provides that payments are due in full from reinsurers with respect to any permitted policy claims covered by the reinsurance without regard to (i) the timing or amount of any cash payment made by FGIC on the underlying claims, (ii) the modification pursuant to the Rehabilitation Plan of FGIC's obligations to pay such permitted policy claims in cash or (iii) any language in the applicable reinsurance agreements that would contradict this result. The net Claims Reserve amount is reduced to give effect to such reinsurance. Ceded loss adjustment expense reserves and unearned premiums ceded to reinsurers have been reported as reductions of the related reserves rather than as assets, as would be required under GAAP. Prospective reinsurance premiums and loss adjustment expenses are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Consolidation

The accounts and operations of the Company's subsidiaries are not consolidated with the accounts and operations of the Company, as would be required under GAAP.

As part of its structured finance business, the Company may have insured debt obligations or certificates issued by special purpose entities that could be considered variable interest entities ("VIE"). The Company does not consolidate the assets and liabilities of a VIE. Under GAAP, the Company would be required to consolidate the assets and liabilities of a VIE if the Company were to determine that it was the primary beneficiary because it directs significant activities of and holds an economic interest in the entity.

3. Significant Accounting Policies (continued)

Statements of Cash Flow

The statutory-basis statements of cash flow are presented in a specified format, which differs from the format prescribed under GAAP. Cash, cash equivalents, and short-term investments in the statements of cash flow represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.

Comprehensive Income

Comprehensive income is not determined under SAP.

Property and Equipment

Property and equipment consists of office furniture, fixtures, computer equipment and software that are non-admitted assets. Under GAAP, these assets are reported at cost less accumulated depreciation.

Reclassifications

Certain 2019 amounts in the Company's statutory-basis financial statements have been reclassified to conform to the 2020 statutory-basis financial statement presentation.

4. Fair Value Measurements

SSAP 100R specifies a fair value hierarchy based on whether the inputs to valuation techniques used to measure fair value are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about market participants' assumptions based on the best information available in the circumstances. The fair value hierarchy prioritizes model inputs into three broad levels: quoted prices for identical instruments in active markets are Level 1 inputs; quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 inputs; and model-driven valuations in which one or more significant inputs or significant value drivers are unobservable are Level 3 inputs.

There have been no transfers into or out of Level 3 during the period.

4. Fair Value Measurements (continued)

The fair values of the Company's admitted investments in bonds, surplus notes, other invested assets, short-term investments and cash equivalents by level, and their related admitted values, are as follows:

	Level 1	Level 2	Level 3	Admitted Value
		(In Thousands)		
March 31, 2020				
Bonds:				
Obligations of states and political subdivisions	$ –	$ 186,822	$ –	$ 162,295
Loan-backed and structured securities	–	582,656	–	574,748
Obligations of the U.S. government and its agencies and instrumentalities	–	122,733	–	100,112
Corporate obligations	–	1,176,431	–	1,146,560
Total bonds	–	2,068,642	–	1,983,715
Surplus notes	–	9,689	–	8,856
Other invested assets	–	–	78,184	61,591
Short-term investments	–	6,300	–	6,290
Cash equivalents	–	61,389	–	61,389
Total	$ –	$ 2,146,020	$ 78,184	$ 2,121,841

4. Fair Value Measurements (continued)

	Level 1	Level 2	Level 3	Admitted Value
	(In Thousands)			
December 31, 2019				
Bonds:				
Obligations of states and political subdivisions	$ –	$ 183,690	$ –	$ 160,745
Loan-backed and structured securities	–	573,732	–	568,862
Obligations of the U.S. government and its agencies and instrumentalities	–	109,443	–	102,677
Corporate obligations	–	1,271,621	–	1,187,937
Total bonds	–	2,138,486	–	2,020,221
Surplus notes	–	10,472	–	8,858
Other invested assets	–	–	70,397	38,764
Short-term investments	–	601	–	601
Cash equivalents	–	80,737	–	80,737
Total	$ –	$ 2,230,296	$ 70,397	$ 2,149,181

5. Investments

The amortized cost and fair value of the Company's admitted investments in bonds, surplus notes, other invested assets, short-term investments and cash equivalents are as follows:

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
	(In Thousands)			
March 31, 2020				
Bonds:				
Obligations of states and political subdivisions	**$ 162,295**	**$ 24,975**	**$ (448)**	**$ 186,822**
Loan-backed and structured securities	**574,748**	**15,964**	**(8,056)**	**582,656**
Obligations of the U.S. government and its agencies and instrumentalities	**100,112**	**22,621**	**–**	**122,733**
Corporate obligations	**1,146,560**	**47,485**	**(17,614)**	**1,176,431**
Total bonds	**1,983,715**	**111,045**	**(26,118)**	**2,068,642**
Surplus notes	**8,856**	**833**	**–**	**9,689**
Other invested assets	**61,591**	**16,593**	**–**	**78,184**
Short-term investments	**6,290**	**10**	**–**	**6,300**
Cash equivalents	**61,389**	**–**	**–**	**61,389**
Total	**$ 2,121,841**	**$ 128,481**	**$ (26,118)**	**$ 2,224,204**

5. Investments (continued)

	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
	(In Thousands)			
December 31, 2019				
Bonds:				
Obligations of states and political subdivisions	$ 160,745	$ 22,986	$ (41)	$ 183,690
Loan-backed and structured securities	568,862	7,065	(2,195)	573,732
Obligations of the U.S. government and its agencies and instrumentalities	102,677	7,054	(288)	109,443
Corporate obligations	1,187,937	84,380	(696)	1,271,621
Total bonds	2,020,221	121,485	(3,220)	2,138,486
Surplus notes	8,858	1,614	–	10,472
Other invested assets	38,764	31,633	–	70,397
Short-term investments	601	–	–	601
Cash equivalents	80,737	–	–	80,737
Total	$ 2,149,181	$ 154,732	$ (3,220)	$ 2,300,693

The Company has recorded OTTI of $9.2 million and $1.0 million on certain bonds for the three months ended March 31, 2020 and 2019, respectively. OTTI on bonds is included in "Net realized capital gains or losses net of tax" in the statutory-basis statements of operations and represents the difference between the cost bases of these securities and their fair values (or, in the case of loan-backed and structured securities, the present value of expected cash flows) at the reporting date. The Company has recorded OTTI of $6.7 million and $11.9 million on other invested assets for the three months ended March 31, 2020 and 2019, respectively. OTTI on other invested assets is included in "Other income" in the statutory-basis statements of operations and represents the difference between the cost bases of these securities and their fair values at the reporting date.

5. Investments (continued)

In accordance with SSAP 43R, the Company is required to categorize its OTTI on loan-backed and structured securities based upon the reason for which the Company recognized an OTTI. The following summarizes those securities held at March 31, 2020 and 2019 for which an OTTI was recorded during the three months ended March 31, 2020 and 2019, respectively:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(In Thousands)	
Intent to sell	**$ –**	$ 120
Inability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis	**–**	–
Present value of the cash flows expected to be collected is less than the amortized cost basis of the security	**159**	–
Total OTTI on loan-backed and structured securities	**$ 159**	$ 120

The amortized cost and fair value of investments in bonds (including loan-backed and structured securities) at March 31, 2020, by contractual maturity date, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year	$ 2,552	$ 2,558
Due after one through five years	496,095	505,178
Due after five years through ten years	363,311	366,384
Due after ten years	547,009	611,866
Loan-backed and structured securities	574,748	582,656
Total	$ 1,983,715	$ 2,068,642

5. Investments (continued)

The amortized cost, fair value and unrealized holding loss for bonds, surplus notes and short-term investments for which fair value declined and remained below amortized cost at March 31, 2020 and 2019 were as follows:

	Less Than 12 Months			Greater Than 12 Months		
	Amortized Cost	**Fair Value**	**Unrealized Holding Loss**	**Amortized Cost**	**Fair Value**	**Unrealized Holding Loss**
			(In Thousands)			
March 31, 2020						
Bonds:						
Obligations of states and political subdivisions	**$ 19,130**	**$ 18,682**	**$ (448)**	**$ –**	**$ –**	**$ –**
Loan-backed and structured securities	**173,779**	**167,595**	**(6,184)**	**38,036**	**36,164**	**(1,872)**
Obligations of the U.S. government and its agencies and instrumentalities	**–**	**–**	**–**	**–**	**–**	**–**
Corporate obligations	**301,608**	**283,994**	**(17,614)**	**–**	**–**	**–**
Total bonds	**$ 494,517**	**$ 470,271**	**$ (24,246)**	**$ 38,036**	**$ 36,164**	**$ (1,872)**
Surplus notes	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**
Short-term investments	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**

5. Investments (continued)

	Less Than 12 Months			Greater Than 12 Months		
	Amortized Cost	**Fair Value**	**Unrealized Holding Loss**	**Amortized Cost**	**Fair Value**	**Unrealized Holding Loss**
			(In Thousands)			
March 31, 2019						
Bonds:						
Obligations of states and political subdivisions	$ –	$ –	$ –	$ 9,572	$ 8,763	$ (809)
Loan-backed and structured securities	50,073	49,815	(258)	182,892	178,704	(4,188)
Obligations of the U.S. government and its agencies and instrumentalities	–	–	–	30,498	27,934	(2,564)
Corporate obligations	50,603	49,099	(1,504)	135,501	129,824	(5,677)
Total bonds	$ 100,676	$ 98,914	$ (1,762)	$ 358,463	$ 345,225	$ (13,238)
Surplus notes	$ –	$ –	$ –	$ –	$ –	$ –
Short-term investments	$ –	$ –	$ –	$ –	$ –	$ –

5. Investments (continued)

Net investment income was derived from the following sources:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(In Thousands)	
Income from bonds	**$ 19,503**	$ 19,283
Income from surplus notes	**103**	103
Income from cash, cash equivalents and short-term investments	**354**	384
Total investment income	**19,960**	19,770
Investment expenses	**(524)**	(517)
Net investment income	**$ 19,436**	$ 19,253

For the three months ended March 31, 2020, prepayment penalties and acceleration fees reported as investment income were reported for seven CUSIPs. The aggregate amount of investment income related to such penalties and fees was $0.3 million.

For the three months ended March 31, 2020 and 2019, proceeds from dispositions of investments in bonds were $118.5 million and $124.5 million, respectively. For the three months ended March 31, 2020 and 2019, gross realized gains of $4.1 million and $3.8 million, respectively, were realized on such dispositions. For the three months ended March 31, 2020 and 2019, gross realized losses of $0.7 million and $1.4 million, respectively, were realized on such dispositions.

For the three months ended March 31, 2020 and 2019, proceeds from dispositions of investments in common stock were $0.0 million and $135.6 million, respectively. Gross realized gains on such dispositions were $0.0 million and $20.9 million for the three months ended March 31, 2020 and 2019, respectively. There were no gross realized losses on such dispositions for the three months ended March 31, 2020 and 2019. The Company sold all its investments in common stocks in February 2019.

5. Investments (continued)

Investments in cash, cash equivalents and bonds carried at amortized cost totaling $4.6 million and $4.5 million as of March 31, 2020 and December 31, 2019, respectively, were on deposit with various regulatory authorities. Investments in cash, cash equivalents and bonds carried at amortized cost totaling $44.6 million and $44.3 million as of March 31, 2020 and December 31, 2019, respectively, were on deposit with an institutional trustee to provide a secure funding source for certain non-policy obligations that may become due in the future.

The carrying values of the Company's investment in the common stock of SCA entities were $33.2 million as of both March 31, 2020 and December 31, 2019. There were no changes in such carrying values for the period ended March 31, 2020 and the year ended December 31, 2019.

6. Income Taxes

FGIC Corp. files a consolidated U.S. federal income tax return which includes FGIC. The method of allocation between FGIC Corp. and FGIC is determined under an amended and restated income tax allocation agreement approved by the NYSDFS and is based upon separate return calculations.

The following is a reconciliation of current federal income taxes computed at the statutory rate on income before provision for federal income taxes and the provision for current federal income taxes.

	Three Months Ended March 31,	
	2020	**2019**
	(In Thousands)	
Income taxes computed at the statutory federal income tax rate on income before provision for federal income taxes	**$ 2,129**	$ 1,910
Tax effect of:		
Change in valuation allowance	**(457)**	(1,513)
Other, net	**3**	15
Total statutory income taxes	**$ 1,675**	$ 412
Federal income tax benefit	**$ (2,876)**	$ (719)
Change in net deferred income taxes	**4,551**	1,131
Total statutory income taxes	**$ 1,675**	$ 412

6. Income Taxes (continued)

The composition of current federal income tax benefit for the three months ended March 31, 2020 and 2019 is as follows:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(In Thousands)	
Current income tax:		
Federal	**$ (3,436)**	$ (5,386)
Federal income tax on net capital gains	**560**	4,667
Federal income tax benefit	**$ (2,876)**	$ (719)

The change in net deferred income taxes is composed of the following:

	March 31, 2020	December 31, 2019	Change
		(In Thousands)	
Total adjusted gross deferred tax assets	**$ 247,383**	$ 249,121	$ (1,738)
Total deferred tax liabilities	**(247,383)**	(246,245)	(1,138)
Net deferred tax asset	**$ –**	$ 2,876	(2,876)
Tax effect of unrealized gains (losses)			(1,675)
Change in net deferred income taxes			$ (4,551)

As of March 31, 2020, the Company had a domestic net operating loss ("NOL") carryforward of $3,205.0 million for federal income tax purposes, which will be available (subject to certain limitations) to offset future taxable income. If not used, the NOL carryforward will start expiring in 2029 through 2037 depending on the originating year.

On March 27, 2020, the CARES Act was signed into law. The CARES Act accelerates the refund schedule for the Company's remaining alternative minimum tax ("AMT") credit carryforward ($2.9 million as of December 31, 2019). The Company intends to file a refund claim for the full amount of such credit carryforward in the second quarter of 2020. As such, the Company has recorded its current year recoverable amount of $2.9 million in its federal income tax benefit for the three months ended March 31, 2020.

6. Income Taxes (continued)

	March 31, 2020
	(In Thousands)
Gross AMT credit recognized as:	
Current year recoverable	**$ 2,876**
Deferred tax asset	**–**
Beginning balance of AMT credit carryforward	**2,876**
Amounts recovered	**2,876**
Adjustments	**–**
Ending balance of AMT credit carryforward	**–**
Non-admitted	**–**
Ending balance of AMT credit carryforward	**$ –**

As of March 31, 2020, the Company had a foreign tax credit carryforward of $0.8 million, which will be available to offset future foreign tax. If not used, the foreign tax credit carryforward will start expiring in 2034 through 2036 depending on the originating year.

The amount of federal income taxes incurred and available for recoupment in the event of future losses is $0.

In accordance with SSAP 101, *Income Taxes* ("SSAP 101"), the Company evaluates its deferred income tax asset to determine whether a valuation allowance is required. SSAP 101 requires that companies assess whether a valuation allowance should be established based on the consideration of all available evidence using a "more likely than not" standard. In making such judgments, significant weight is given to evidence that can be objectively verified. Management believes it is more likely than not that the amortization of the net unearned premium reserve, collection of future installment premiums on contracts already written, and income from the investment portfolio will not generate sufficient taxable income to realize the entire deferred tax asset that currently exists. Accordingly, a valuation allowance of $475.3 million was established against the Company's domestic net deferred tax asset as of March 31, 2020. The Company will continue to analyze the need for a valuation allowance on a quarterly basis. The Company's tax returns are subject to routine audits by the Internal Revenue Service and other taxing authorities.

6. Income Taxes (continued)

The following table presents the total of deferred tax assets and liabilities by tax character:

	March 31, 2020	December 31, 2019
	(In Thousands)	
Gross deferred tax assets:		
Ordinary	**$ 689,563**	$ 694,955
Capital	**33,073**	29,876
Gross deferred tax assets	**722,636**	724,831
Statutory valuation allowance adjustment	**(475,253)**	(475,710)
Adjusted gross deferred tax assets	**247,383**	249,121
Deferred tax assets non-admitted	**–**	(2,876)
Subtotal net admitted deferred tax asset	**247,383**	246,245
Deferred tax liabilities:		
Ordinary	**(247,314)**	(246,176)
Capital	**(69)**	(69)
Deferred tax liabilities	**(247,383)**	(246,245)
Net admitted deferred tax asset	**$ –**	$ –

6. Income Taxes (continued)

The tax effects of temporary differences that give rise to significant portions of the net deferred tax asset at March 31, 2020 and December 31, 2019 are presented below by tax component:

	March 31, 2020	**December 31, 2019**
	(In Thousands)	
Deferred tax assets:		
Premium revenue recognition	**$ 804**	$ 816
Net operating loss carryforward	**673,054**	675,026
Impairment losses on investments	**4,687**	2,894
AMT credit carryforward	**–**	2,876
Losses-salvage and subrogation recoverable	**3,229**	3,148
Unrealized loss from FGIC UK	**19,629**	19,629
Deemed repatriation of FGIC UK E&P	**4,423**	4,423
Other	**16,810**	16,019
Gross deferred tax assets	**722,636**	724,831
Statutory valuation allowance adjustment	**(475,253)**	(475,710)
Adjusted gross deferred tax assets	**247,383**	249,121
Deferred tax assets non-admitted adjustment	**–**	(2,876)
Net admitted gross deferred tax assets	**247,383**	246,245
Deferred tax liabilities:		
Tax basis losses incurred adjustment	**(246,364)**	(245,180)
Discount on bonds and other	**(1,019)**	(1,065)
Deferred tax liabilities	**(247,383)**	(246,245)
Net admitted deferred tax asset	**$ –**	$ –

7. Loss Reserves

Loss reserves comprise the total amount of (i) the Claims Reserve, (ii) the DPO for all policies and (iii) the DPO Accretion for all policies, minus the Policy Revision Adjustment. The Policy Revision Adjustment shown in the table below is prescribed by NYSDFS Guidelines and reflects the reduction in the loss reserve components necessary to reflect a Minimum Surplus Amount of $66.4 million.

The loss reserve components as of March 31, 2020 and December 31, 2019 are summarized as follows:

	March 31, 2020	December 31, 2019
	(In Thousands)	
Claims Reserve	**$ 1,175,498**	$ 1,213,340
DPO	**1,418,289**	1,414,003
DPO Accretion	**242,787**	231,886
Total	**2,836,574**	2,859,229
Policy Revision Adjustment	**(1,186,793)**	(1,180,546)
Loss reserves, net balance at end of period	**$ 1,649,781**	$ 1,678,683

Claims Reserve

The Claims Reserve is calculated on a policy-by-policy basis for insured obligations, net of reinsurance, as of the reporting date (using the prescribed statutory discount rate which is based on the average rate of return on the Company's admitted assets, which was 4.16% at both March 31, 2020 and December 31, 2019). The amount of the discount applied to the Claims Reserve as of March 31, 2020 and December 31, 2019 was $723.5 million and $775.2 million, respectively. The amount of the discount decreased by $51.7 million and $159.3 million for the three months ended March 31, 2020 and the year ended December 31, 2019, respectively. Any decrease (increase) in the amount of the discount is recorded as an increase (decrease) to losses incurred.

7. Loss Reserves (continued)

Activity related to the Claims Reserve for the three months ended March 31, 2020 and the year ended December 31, 2019 is summarized as follows:

	March 31, 2020	**December 31, 2019**
	(In Thousands)	
Claims Reserve, beginning of period	**$ 1,213,340**	$ 1,334,365
Total Claims Reserve released related to:		
Current year	**–**	–
Prior years	**(13,776)**	(50,159)
Total released	**(13,776)**	(50,159)
Paid (net of recoveries received) related to:		
Current year	**–**	–
Prior years	**(19,780)**	(1,992)
Total paid	**(19,780)**	(1,992)
DPO related to policy claims paid at the applicable CPP, less DPO reductions:		
Current year	**–**	–
Prior years	**(4,286)**	(68,874)
Total related to DPO	**(4,286)**	(68,874)
Claims Reserve, end of period	**$ 1,175,498**	$ 1,213,340

As of March 31, 2020, FGIC's Claims Reserve was attributable nearly entirely to its Puerto Rico-related insured exposures and certain residential mortgage-backed securities ("RMBS") insured by FGIC. The Claims Reserve decreased $37.8 million to $1,175.5 million at March 31, 2020 from $1,213.3 million at December 31, 2019. The Claims Reserve released of $13.8 million for the three months ended March 31, 2020 was primarily driven by decreases in estimated losses for certain FGIC-insured floating rate RMBS due to forward interest rate movements and reductions to give effect to purchases of FGIC-insured RMBS and Puerto Rico-related securities by FGIC. These decreases were partially offset by increases in estimated losses for certain Puerto Rico-related

7. Loss Reserves (continued)

exposures insured by FGIC as well as a decrease in the amount of the discount applied to the Claims Reserve.

The following table shows the gross and net par in force for FGIC's Puerto Rico-related insured exposures as of March 31, 2020:

	Gross Par In Force*	Net Par In Force*
	(In Thousands)	
Puerto Rico General Obligation	$ 189,655	$ 188,078
Puerto Rico Convention Center District Authority	97,075	97,075
Puerto Rico Highways and Transportation Authority (Trans Revs – Senior)	367,200	339,529
Puerto Rico Highways and Transportation Authority (Trans Revs – Subordinate)	27,320	27,320
Puerto Rico Infrastructure Financing Authority**	293,030	293,030
Total	$ 974,280	$ 945,032

* *With respect to any FGIC-insured exposure, (i) gross par in force is based on the outstanding principal amount of such exposure, as of the date of determination, but, if such exposure has been the subject of any permitted policy claim paid by FGIC at the CPP in accordance with the Rehabilitation Plan, the gross par in force is reduced by the total amount of all such permitted policy claims relating to principal (without duplication of any other actual reductions), not merely by the CPP portion thereof paid in cash, since the Rehabilitation Plan prohibits future policy claims for that principal amount or interest thereon, and (ii) net par in force means the gross par in force for such exposure net of any related reinsurance. Neither GPIF nor NPIF is reduced to give effect to FGIC-insured Puerto Rico-related securities purchased by FGIC.*

** *Includes capital appreciation bonds (CABs) using their total original principal amount of $111.2 million. As of March 31, 2020, the total accreted value of these CABs was $219.9 million.*

7. Loss Reserves (continued)

The following table shows the scheduled net debt service due on FGIC's Puerto Rico-related insured exposures as of March 31, 2020, for each of the years presented:

	Puerto Rico General Obligation	Puerto Rico Convention Center District Authority	Puerto Rico Highways and Transportation Authority (Trans Revs - Senior)	Puerto Rico Highways and Transportation Authority (Trans Revs - Subordinate)	Puerto Rico Infrastructure Financing Authority	Total
			(In Thousands)			
2020	$ 21,507	$ 2,378	$ 16,032	$ 11,785	$ 49,716	$ 101,418
2021	94,726	19,075	38,486	17,258	54,712	224,257
2022	60,170	19,073	47,226	–	54,713	181,182
2023	1,579	19,076	28,866	–	8,045	57,566
2024	1,579	19,075	28,865	–	8,045	57,564
Thereafter	36,458	38,147	411,232	–	482,756	968,593
Total	$ 216,019	$ 116,824	$ 570,707	$ 29,043	$ 657,987	$ 1,590,580

FGIC's Puerto Rico-related insured exposures are subject to significant stress and credit deterioration arising from Puerto Rico's fiscal, financial, liquidity and other challenges. There is substantial uncertainty as to Puerto Rico's ability and willingness to pay its various debt service obligations, as discussed below.

Puerto Rico has defaulted on all semi-annual debt service payments on FGIC-insured Puerto Rico Infrastructure Financing Authority ("PRIFA") bonds due from and after January 1, 2016, FGIC-insured General Obligation ("GO") and GO Guaranteed bonds due from and after July 1, 2016, and FGIC-insured Puerto Rico Highways and Transportation Authority ("PRHTA") and Puerto Rico Convention Center District Authority ("PRCCDA") bonds due from and after July 1, 2017. Due to Puerto Rico's defaults, FGIC has made payments in accordance with the terms of its related policies (as modified by the Rehabilitation Plan) in respect of aggregate policy claims of approximately $380.8 million through March 31, 2020. To the extent Puerto Rico continues to fail to pay scheduled debt service on FGIC-insured exposures as and when due, FGIC would be obligated to pay the related claims under its policies (as modified by the Rehabilitation Plan), and such claims could be material. While FGIC will seek to recover any claim payments it makes, there can be no assurance that FGIC will be able to recover any such payments.

7. Loss Reserves (continued)

On June 30, 2016, the President of the United States signed into law the Puerto Rico Oversight Management and Economic Stability Act ("PROMESA"). PROMESA, among other things, established the Financial Oversight and Management Board (the "Oversight Board") with broad responsibilities and authority for (i) overseeing the development of budgets and fiscal plans for the Commonwealth and its instrumentalities and (ii) initiating judicial processes under Title III of PROMESA to restructure the debts of the Commonwealth and its instrumentalities, by accessing multiple sections of the U.S. Bankruptcy Code (including cramdown provisions) that were not previously available to Puerto Rico. PROMESA also set forth collective action provisions intended to facilitate consensual debt restructurings pursuant to Title VI of PROMESA. PROMESA provided for an automatic stay of debt-related litigation and other enforcement actions upon its enactment (the "PROMESA Stay"), which expired on May 1, 2017.

On May 3, 2017, the Oversight Board filed a petition in the U.S. District Court for the District of Puerto Rico and thereby commenced a debt adjustment proceeding for the Commonwealth of Puerto Rico under Title III of PROMESA. On May 21, 2017, the Oversight Board filed a petition in the U.S. District Court for the District of Puerto Rico and thereby commenced a debt adjustment proceeding for PRHTA under Title III of PROMESA. The terms and timing for any final outcome of these Title III proceedings are uncertain but could materially impact FGIC.

On June 14, 2017, Judge Laura Taylor Swain (the federal judge hearing the Title III cases) entered an order designating a mediation team comprising five sitting federal judges to facilitate confidential settlement negotiations of any and all issues and proceedings arising in the Title III cases. On July 24, 2019, Judge Swain entered an order (i) staying the litigation of various issues in the Commonwealth and PRHTA Title III cases, including adversary proceedings and other disputes involving FGIC, and (ii) requiring litigants, including FGIC, to participate in the mediation of various matters before the designated mediators. Judge Swain from time to time has modified such order, among other things, to extend the litigation stay and to permit the filing and briefing of certain motions in certain actions, including actions involving FGIC (such order as modified, the "Stay and Mediation Order"). Since 2017, FGIC has participated in many mediation and negotiation sessions with no resolution of its claims.

Since 2017, the Oversight Board has certified several fiscal plans for the Commonwealth and PRHTA. On May 9, 2019, the Oversight Board certified a revised fiscal plan for the Commonwealth, which projects annual budgetary surpluses through 2037, followed by annual budgetary deficits. As was the case with prior certified fiscal plans for the Commonwealth, this revised fiscal plan does not provide a high degree of detail regarding the underlying data, assumptions and rationales supporting those assumptions, which hinders the reconciliation and

7. Loss Reserves (continued)

verification of the financial projections. Consequently, it is difficult to predict with any certainty the ability and willingness of the Oversight Board and Commonwealth to pay, or allocate or appropriate funds for payment of, the existing contractual debt service obligations of the Commonwealth and its authorities and public corporations, including PRIFA and PRCCDA, shown in the revised fiscal plan.

On June 5, 2019, the Oversight Board certified a revised fiscal plan for PRHTA, which continues to exclude large sources of PRHTA revenues from the forecasted cash flows for PRHTA and consequently continues to show limited capacity to pay PRHTA's existing contractual debt service obligations over the six-year period covered by such revised fiscal plan.

The Oversight Board is expected to revise these certified fiscal plans, at some point, to reflect intervening results and the impact of any changes to the outlook for Puerto Rico, including due to disruptions caused by the COVID-19 pandemic. The nature and extent of any such revisions is unclear, but could be material to FGIC, since the final certified fiscal plans for the Commonwealth and PRHTA are intended to serve as the basis for the plans of adjustment in their respective Title III proceedings.

On September 27, 2019, the Oversight Board filed a joint plan of adjustment for the Commonwealth, the Employees Retirement System and the Puerto Rico Public Buildings Authority, in the Commonwealth's Title III proceeding, which provided for, among other things, discounted recoveries for holders of GO and GO Guaranteed bonds and minimal recoveries for holders of PRIFA, PRCCDA and PRHTA bonds. On February 9, 2020, the Oversight Board disclosed that it had entered into an amended plan support agreement with holders of approximately $8 billion of GO and GO Guaranteed bonds (the "GO PSA"). Subsequently, the Oversight Board disclosed that holders of approximately $2 billion of additional GO and GO Guaranteed bonds had joined the GO PSA. The GO PSA purportedly provides a framework for a plan of adjustment to resolve $35 billion of debt and unsecured claims against the Commonwealth, including GO and GO Guaranteed, PRHTA, PRIFA and PRCCDA bond claims. FGIC is not a party to the GO PSA nor does FGIC support the GO PSA on its current terms.

On February 28, 2020, the Oversight Board filed an amended joint plan of adjustment (the "Amended Commonwealth POA") and a related disclosure statement, which purportedly reflect the relevant terms of the GO PSA. The Amended Commonwealth POA provides for recoveries on pre-2011 GO bonds and pre-2011 GO Guaranteed bonds of 74.9% and 77.6%, respectively, of the related claim amount as of the Commonwealth's Title III petition date. All GO and GO

7. Loss Reserves (continued)

Guaranteed bonds insured by FGIC are pre-2011 bonds. These recoveries will be in the form of cash and new debt, with that new debt being evenly split between new GO bonds and new junior lien sales tax bonds issued by the Puerto Rico Sales Tax Financing Corporation ("COFINA"). The Amended Commonwealth POA provides for only minimal recoveries for holders of PRIFA, PRCCDA and PRHTA bond claims against the Commonwealth (including the bonds insured by FGIC). FGIC does not support the Amended Commonwealth POA on its current terms.

On March 27, 2020, at the request of the Oversight Board, Judge Swain entered an order adjourning, until further notice, the hearing on the disclosure statement with respect to the Amended Commonwealth POA, to allow the Oversight Board and the Commonwealth to devote their attention to addressing the impact of the COVID-19 pandemic on Puerto Rico. It is unclear whether, or to what extent, the Oversight Board may revise the Amended Commonwealth POA and disclosure statement in the future, but the nature and extent of any such revisions could be material to FGIC.

The Oversight Board has not yet filed a proposed plan of adjustment for PRHTA in PRHTA's Title III proceeding, and it is unclear when it will file such plan of adjustment. Any such proposed plan of adjustment, however, may provide for additional recoveries for holders of PRHTA bonds, including bonds insured by FGIC.

On February 15, 2019, the United States Court of Appeals for the First Circuit held that members of the Oversight Board were not appointed in compliance with the Appointments Clause of the U.S. Constitution, but it declined to invalidate any prior actions of the Oversight Board, including the PROMESA Title III proceedings commenced by the Oversight Board. On June 20, 2019, the Supreme Court of the United States granted the separate petitions of the Oversight Board and other parties to review the First Circuit's ruling. On July 2, 2019, the First Circuit extended the stay of its ruling, which had been in effect, pending disposition of the case by the Supreme Court. On October 18, 2019, the Supreme Court heard oral argument from the parties in interest. The Supreme Court's opinion, when rendered, may be material to FGIC.

FGIC has commenced various legal proceedings and taken various legal actions against the Commonwealth, the Oversight Board and others with respect to actions taken (or not taken) that affect the Puerto Rico-related exposures it insures, including those discussed in Note 11, Legal Proceedings. FGIC is opposing and defending various legal proceedings brought by the Oversight Board and others with respect to matters affecting its Puerto Rico-related insured exposures, including those discussed in Note 11, Legal Proceedings.

7. Loss Reserves (continued)

The ultimate impact of PROMESA (including the Title III proceedings that have been or may be filed and legal challenges that have been or may be brought), laws enacted by the Commonwealth, executive orders issued by the Governor of Puerto Rico, and actions taken (or not taken) by the Oversight Board or the Commonwealth, on Puerto Rico and its fiscal, financial, liquidity and other challenges, including the payment or restructuring of its debt obligations (including those insured by FGIC), is uncertain, but could be material to FGIC.

Pursuant to FGIC's normal surveillance process, every Puerto Rico-related insured exposure is reviewed on a quarterly basis. This process includes reviewing developments in the Title III proceedings, various legal proceedings involving the Company or relevant to its insured exposures, and economic, financial and other matters affecting Puerto Rico, including those highlighted above. As of March 31, 2020, FGIC's Claims Reserve for its Puerto Rico-related insured exposures was based on various estimates, assumptions and judgments by management about the outcome of future events, including the possible timing and outcome of the Title III proceedings that have been or may be filed and legal challenges that have been or may be brought, the nature, timing and impact of disaster recovery efforts, the amount and timing of federal aid and assistance for Puerto Rico, and the impact of actions taken (or not taken) by the Oversight Board or the Commonwealth, and economic, financial and other matters concerning Puerto Rico, including those highlighted above. It is impossible to predict with any certainty how or when Puerto Rico will be able to resolve its debt and other challenges, and any such resolution could have a material effect on FGIC's Claims Reserve and the related policy claims that FGIC would be required to pay.

Pursuant to FGIC's normal surveillance process, every FGIC-insured RMBS is reviewed on a quarterly basis. This process includes reviewing the loan and transaction performance data presented in the monthly RMBS trustee reports to identify any changes in performance or other issues. This updated performance data is used in FGIC's cash flow projection models for estimating future losses and recoveries on FGIC-insured RMBS, and, to the extent any net claims are projected, for establishing the amount of the Claims Reserve for such RMBS. These models utilize various important assumptions, including assumptions as to future mortgage loan performance (e.g., default rates, loss severity rates, and prepayment rates) and the amount and timing of collateral cash flows, that are typically based on recent historical performance, the priority of application of those cash flows under the RMBS transaction documents, and future interest rates that are typically derived from forward interest rate curves. The Company has insured certain floating rate RMBS transactions. Accordingly, the Company is exposed to interest rate risk. For Claims Reserve purposes, each quarter the Company projects its insured exposure on these transactions using forward interest rate curves as of the end of such quarter. For such RMBS

7. Loss Reserves (continued)

transactions, increases or decreases in the interest rates comprising such curves as compared to the prior quarter could significantly impact the related Claims Reserve, and such changes could be material. The Claims Reserve should be most significantly impacted on such RMBS transactions where FGIC is not required to pay policy claims relating to principal losses until legal maturity of the transactions (2035-2037) because they will continue to have relatively high principal balances on which interest generally will accrue except as otherwise provided in the transaction documents. The Claims Reserve for RMBS is based primarily on the outputs of the cash flow projection models referred to above and relies on the capability of such models to project future loan and RMBS performance. Actual mortgage loan performance and other RMBS-related developments (including interest rate movements), including the impacts of the COVID-19 pandemic, may lead to changes in the Claims Reserve for RMBS, and such changes could be material.

The Company believes that the Claims Reserve as of March 31, 2020 is adequate. However, the establishment of the Claims Reserve is an inherently uncertain process involving numerous estimates, assumptions and judgments by management about the outcome of future events. These estimates, assumptions and judgments may change from time to time based on, among other things, developments in the matters highlighted above, including further deterioration in FGIC-insured Puerto Rico-related exposures or the performance of FGIC-insured RMBS, interest rate movements, the economic, financial and other disruptions caused by the COVID-19 pandemic, or changes in the ability or willingness of insured obligors (including Puerto Rico-related entities) to pay their debt service obligations. As a result, FGIC's Claims Reserve may change materially during the relevant period. Any estimates of FGIC's Claims Reserve, therefore, may differ from the ultimate claims required to be paid by FGIC, possibly materially. These changes, however, will not affect the Company's loss reserve or operating results as long as a Policy Revision Adjustment is required to be made. There can be no assurance that the Company's estimate of the Claims Reserve is accurate. Accordingly, there can be no assurance that the total amount of policy claims permitted by the Company after March 31, 2020 will not exceed or be less than its Claims Reserve at March 31, 2020, and it is possible that they could significantly exceed such reserve.

7. Loss Reserves (continued)

The Company reviews its insured obligations on a regular basis with the objective of monitoring credit quality and performance, identifying credit deterioration, and avoiding or minimizing losses. Based on these reviews, the Company assigns each insured obligation to one of the following risk categories, to set the extent and frequency of the Company's ongoing surveillance efforts:

Risk Category 1 – Performing – Regular Surveillance

Includes insured obligations that are performing with no expectation of loss in current or anticipated circumstances. Insured obligations assigned to this risk category are reviewed on at least an annual basis.

Risk Category 2 – Performing – Heightened Surveillance

Includes insured obligations that are performing with no expectation of loss in current or anticipated circumstances, but which have been identified as deserving heightened surveillance due to the occurrence of one or more factors that have impacted, or may impact, the credit quality of the insured obligation, such as financial, economic, political, legal, contractual, performance or other issues adversely impacting an issuer/transaction or an entire sector or category of insured obligations, the breach of one or more representations, covenants or deal triggers by the issuer/transaction, or the downgrade of an insured obligation to low or below investment grade. Insured obligations assigned to this risk category are reviewed on at least a semi-annual basis.

Risk Category 3 – Credit Deterioration – Possible Loss

Includes insured obligations that have suffered credit deterioration sufficient to create a significant possibility of payment default in the future, but that are not currently or likely to be in payment default. Insured obligations assigned to this risk category are reviewed on at least a quarterly basis.

Risk Category 4 – Actual or Likely Payment Default

Includes insured obligations that are currently or likely to be in payment default. Claims Reserves are established for insured obligations for which future loss is probable and can be reasonably estimated, and are inclusive of any anticipated recoveries of loss payments. Insured obligations assigned to this risk category are reviewed on at least a quarterly basis.

7. Loss Reserves (continued)

The following table is a breakdown, as of March 31, 2020, of the Company's portfolio of insured obligations assigned to risk categories 2, 3 and 4:

	Risk Category 2	Risk Category 3	Risk Category 4	Total
	(Dollars in Thousands)			
Number of policies	15	–	81	96
Remaining weighted-average contract period (in years)	12	–	9	XXX
Insured contractual payments outstanding:				
Principal	$ 613,490	$ –	$ 2,930,426	$ 3,543,916
Interest	151,218		1,256,949	1,408,167
Total	$ 764,708	$ –	$ 4,187,375	$ 4,952,083
Gross Claims Reserve	$ –	$ –	$ 2,131,432	$ 2,131,432
Less:				
Gross projected recoveries	–	–	232,471	232,471
Discount	–	–	723,463	723,463
Gross Claims Reserve, net of discount and projected recoveries	$ –	$ –	$ 1,175,498	$ 1,175,498
Unearned premiums	$ 3,282	$ –	$ 25,109	$ 28,391
Reinsurance recoverable reported in the balance sheet	$ –	$ –	$ 35	$ 35

7. Loss Reserves (continued)

The structure of the waterfall of cash flows in the transaction documents for FGIC-insured RMBS and applicable terms and conditions of the Rehabilitation Plan may permit FGIC to recover claims paid from subsequent cash flows. The projected recoveries in the above table reflect FGIC's current estimate of these RMBS recoveries, as well as the projected recoveries in respect of claims paid on FGIC's Puerto Rico-related insured exposures, but there can be no assurance that such recoveries will be received by FGIC.

The Company may pursue various loss mitigation activities based on the type and nature of the insured obligation and the issue or event giving rise to the loss mitigation concern. These loss mitigation activities may include developing and implementing plans to communicate with and obtain financial and other information from transaction participants, to enforce the Company's contractual rights and remedies, and, where appropriate, to commence and prosecute litigation proceedings to enforce the Company's rights and remedies and recover losses already incurred by FGIC or mitigate future losses that FGIC may incur. There can be no assurance that any loss mitigation efforts will be successful, or as to the magnitude of any benefit that might be derived from any such efforts that are successful.

In accordance with the Rehabilitation Plan, each reinsurer is obligated to pay FGIC in full in cash for such reinsurer's reinsured portion of the entire amount of each permitted policy claim covered by the reinsurance, in each case without giving effect to the modification of FGIC's policy obligations and regardless of the amount paid in cash by FGIC on account of such policy claim. Any reinsurance recoverable on losses is calculated in a manner consistent with the calculation of the gross Claims Reserve and reflected in the Claims Reserve as a reduction of the liability.

7. Loss Reserves (continued)

DPO

Activity in the DPO for the three months ended March 31, 2020 and the year ended December 31, 2019 is summarized as follows:

	March 31, 2020	December 31, 2019
	(In Thousands)	
DPO, beginning of period	**$ 1,414,003**	$ 1,453,824
Payments of DPO	**–**	(133,331)
DPO related to policy claims paid at the applicable CPP, less DPO reductions	**4,286**	68,874
DPO increases related to amounts recovered by FGIC	**–**	24,636
DPO, end of period	**$ 1,418,289**	$ 1,414,003

DPO Accretion

Activity in the DPO Accretion for the three months ended March 31, 2020 and the year ended December 31, 2019 is summarized as follows:

	March 31, 2020	December 31, 2019
	(In Thousands)	
DPO Accretion, beginning of period	**$ 231,886**	$ 206,171
DPO Accretion for the period	**10,901**	42,944
Payments of DPO Accretion	**–**	(17,229)
DPO Accretion, end of period	**$ 242,787**	$ 231,886

7. Loss Reserves (continued)

Policy Revision Adjustment

Activity in the Policy Revision Adjustment for the three months ended March 31, 2020 and the year ended December 31, 2019 is summarized as follows:

	March 31, 2020	December 31, 2019
	(In Thousands)	
Policy Revision Adjustment, beginning of period	**$ (1,180,546)**	$ (1,276,565)
(Increase) Decrease in Policy Revision Adjustment	**(6,247)**	96,019
Policy Revision Adjustment, end of period	**$ (1,186,793)**	$ (1,180,546)

8. Loss Adjustment Expense Reserve

The Company estimates a loss adjustment expense reserve based on the ultimate future net cost, determined using internally developed estimates, of the efforts involved in managing and mitigating existing and future policy claims and recovering or mitigating its policy losses and liabilities.

8. Loss Adjustment Expense Reserve (continued)

Activity in the loss adjustment expense reserve for the three months ended March 31, 2020 and the year ended December 31, 2019 is summarized as follows:

	March 31, 2020	December 31, 2019
	(In Thousands)	
Net balance at beginning of period	**$ 9,408**	$ 16,646
Incurred (released) related to:		
Current year	**–**	–
Prior years	**3,393**	(148)
Total incurred (released)	**3,393**	(148)
Paid related to:		
Current year	**–**	–
Prior years	**(1,465)**	(7,090)
Total paid	**(1,465)**	(7,090)
Net balance at end of period	**$ 11,336**	$ 9,408

9. Employee Benefit Plans

The Company has a defined contribution savings plan under Section 401(k) of the Internal Revenue Code. This plan allows all employees who meet eligibility requirements to defer a portion of their annual compensation on a pre-tax basis. The Company makes matching contributions to the plan on behalf of employees. For the three months ended March 31, 2020 and 2019, the Company contributed to the plan, on behalf of employees, $0.4 million and $0.4 million, respectively.

Effective April 1, 2014, the Company adopted a Long-Term Incentive Plan, a non-qualified, unfunded deferred compensation plan for certain employees (the “LTIP”). The Company issued LTIP units in 2014, 2015 and 2016, but none of these LTIP units are currently outstanding. The benefits under the last remaining LTIP units were paid in the first quarter of 2020. For the three

9. Employee Benefit Plans (continued)

months ended March 31, 2020 and 2019, the LTIP expense was $0.1 million and $0.7 million, respectively.

10. Related-Party Transactions

The Company is a party to cost-sharing agreements with FGIC Corp. and FGIC UK, pursuant to which the Company may provide these affiliates with management, administrative and other services, the Company may incur and pay costs and other expenses that benefit these affiliates, and these affiliates are obligated to pay the Company for the allocated cost of such services and to reimburse the Company for their allocated share of such expenses paid by the Company. Such shared costs and expenses are allocated to affiliates and vary depending on the assumptions underlying the allocations.

The Company is a party to an amended and restated income tax allocation agreement with FGIC Corp. (see Note 6, Income Taxes).

The assets provided by the City of Detroit, Michigan in connection with the settlement of certain claims related to the FGIC-insured certificates of participation (the "COPs") issued by the Detroit Retirement Systems Funding Trust 2005 and the Detroit Retirement Systems Funding Trust 2006 (together, the "COPs Trusts") pursuant to Detroit's bankruptcy plan were transferred to Gotham Motown Recovery, LLC ("GMR"), a Delaware limited liability company formed in 2016 for the purpose of owning, managing, administering, and otherwise dealing with such assets. Following the sale of the last of such assets owned by GMR and the distribution of GMR's remaining cash assets (net of an expense reserve) to the COPs Trusts (as members of GMR), GMR was dissolved and liquidated in December 2019. The COPs Trusts distributed substantially all of such distributions to the holders of the COPs in January 2020. At such time, FGIC owned 43.5% of the COPs by virtue of having paid policy claims in cash, and accordingly FGIC received 43.5% of such distributions made by the COPs Trusts, which FGIC recorded as a reduction to losses incurred for the year ended December 31, 2019. Expense reimbursements that FGIC received from GMR in connection with acting as the managing member of GMR were recorded as reductions to other underwriting expenses. In accordance with SAP, FGIC did not assign any value as an asset to its membership interest in GMR nor did it assign any such value to its ownership of COPs.

11. Legal Proceedings

FGIC may be involved from time to time in various legal proceedings filed against it, including the proceedings described below. FGIC is vigorously opposing and defending against these proceedings. There is no assurance that FGIC will prevail in these proceedings, and adverse rulings could have a material adverse effect on FGIC. In addition, FGIC has received, and may in the future receive, various subpoenas, regulatory inquiries, requests for information and document preservation letters. Defending against legal proceedings and responding to subpoenas, regulatory inquiries, requests for information and document preservation letters may involve significant expense and diversion of management's attention and other FGIC resources.

FGIC has asserted, and from time to time may assert, claims in legal or arbitration proceedings against third parties to recover losses already incurred by FGIC or to mitigate future losses that FGIC may incur, including the proceedings described below. FGIC is vigorously pursuing these proceedings. The amount of losses that FGIC may recover or mitigate as a result of these proceedings is uncertain, although, in the event of favorable outcomes or settlements, such amount could be material to FGIC's results of operations, financial position, profitability or cash flows.

In *Financial Guaranty Insurance Company v. The Putnam Advisory Company, LLC* (U.S. District Court for the Southern District of New York, filed October 1, 2012 and thereafter amended on November 19, 2012), FGIC sued The Putnam Advisory Company ("Putnam"), alleging fraud, negligent misrepresentation and negligence by Putnam in connection with the Pyxis ABS CDO 2006-1 transaction for which Putnam acted as collateral manager. On September 10, 2013, FGIC's complaint was dismissed, with leave to file a further amended complaint. On September 30, 2013, FGIC filed a further amended complaint. On April 28, 2014, the District Court granted Putnam's motion to dismiss FGIC's claims. On April 15, 2015, the United States Court of Appeals for the Second Circuit vacated the District Court's dismissal of FGIC's complaint and remanded the case for further proceedings. On May 18, 2015, Putnam filed its answer to the complaint. On September 10, 2019, the District Court denied FGIC's motion for summary judgment as to its claims arising from Putnam's negligent misrepresentation and negligence, and denied the principal elements of Putnam's motion for summary judgment as to FGIC's claims. The District Court has scheduled FGIC's claims for trial commencing on July 6, 2020.

In *Financial Guaranty Insurance Company v. Morgan Stanley, et al.*, (N.Y. Sup.Ct., Index No. 652914/2014, filed on September 23, 2014), FGIC sued Morgan Stanley ABS Capital I Inc., Morgan Stanley Mortgage Capital Holdings LLC, Morgan Stanley and Morgan Stanley & Co. LLC (collectively, "Morgan Stanley"), and Saxon Mortgage Services, Inc. ("Saxon"), alleging, *inter alia*, that (i) Morgan Stanley fraudulently induced FGIC to insure the RMBS transaction known as MSAC 2007-NC4; (ii) Morgan Stanley breached various warranties and affirmative

11. Legal Proceedings (continued)

covenants, including their obligations to repurchase breaching or fraudulent mortgage loans and to reimburse FGIC for payments made under the related FGIC policy; and (iii) Saxon breached its warranties and obligations under the Pooling and Servicing Agreement for the MSAC 2007-NC4 transaction, including its obligation to provide notice of breaching mortgage loans. On January 23, 2017, the trial court denied in its entirety defendant's motion to dismiss FGIC's claims. On March 1, 2017, defendants filed their answer to the complaint. On September 13, 2018, the Appellate Division of the Supreme Court of New York, First Department, modified the decision of the trial court and granted defendants' motion to dismiss FGIC's fraud claim, but otherwise affirmed the trial court's decision denying defendants' motions to dismiss. On December 20, 2018, FGIC's motion for leave to reargue or appeal this dismissal was denied by the Appellate Division. On January 9, 2020, FGIC served an amended complaint that added (i) allegations that Morgan Stanley had been grossly negligent in selecting the mortgage loan pool for the MSAC 2007-NC4 transaction and (ii) a cause of action related to Morgan Stanley's failure to notify FGIC of breaches of loan warranties. On January 29, 2020, Morgan Stanley served its answer. On February 7, 2020, Morgan Stanley filed a notice of appeal of the trial court's decision permitting FGIC to serve its amended complaint.

In *Assured Guaranty Corp., et al. v. Commonwealth of Puerto Rico, et al.*, (D.P.R., Case No. 18-00059-LTS, filed on May 23, 2018), FGIC, Assured Guaranty Corp., and Assured Guaranty Municipal Corp. commenced an adversary proceeding in the Commonwealth of Puerto Rico's Title III case seeking a judgment declaring that the revised fiscal plan for the Commonwealth that was certified by the Oversight Board on April 29, 2018, is unlawful and unconstitutional based on, among other things, violations of various provisions of PROMESA and the Contracts, Takings and Due Process Clauses of the U.S. Constitution, and declaring that the Oversight Board cannot use the revised fiscal plan as the basis for proposing a plan of adjustment in the Commonwealth's Title III case. Since July 24, 2019, this adversary proceeding has been stayed pursuant to the Stay and Mediation Order. This adversary proceeding had previously been stayed by judicial order from August 13, 2018, until June 24, 2019.

In *The Financial Oversight and Management Board for Puerto Rico, et al. v. Ambac Assurance Corporation, et al.* (D.P.R. Case No. 19-00363, filed on May 20, 2019), the Oversight Board, the Official Committee of Unsecured Creditors and PRHTA commenced an adversary proceeding in PRHTA's Title III case against numerous parties, including FGIC and other insurers and holders of PRHTA bonds, seeking, among other things, declaratory judgments that such parties do not possess a security interest in anything beyond revenues received by PRHTA and deposited in accounts held by the fiscal agent, and that such parties' claims, to the extent they are valid, are unsecured. On June 11, 2019, FGIC filed its answer, counterclaims and third-party claims, seeking

11. Legal Proceedings (continued)

declaratory judgments that (i) FGIC has a lawful lien or priority in the revenues and taxes pledged to secure the PRHTA bonds, and that these pledged revenues and taxes are not subject to clawback or the conditions for effectuating any clawback have not been satisfied, (ii) the Oversight Board acted *ultra vires* and in violation of the U.S. and Commonwealth Constitutions when approving certain fiscal plans and budgets for the Commonwealth and PRHTA and (iii) such fiscal plans and budgets are void. FGIC further seeks through its and counterclaims and third-party claims both writs of mandamus and prohibition to: (a) require the Oversight Board to revoke the invalid fiscal plans and budgets and to develop and approve legal fiscal plans and budgets respecting such liens and priorities of the PRHTA bonds; and (b) prohibit the Oversight Board from approving any fiscal plans or budgets that do not respect such liens and priorities and from proposing any plan of adjustment that is *per se* unconfirmable. Since July 24, 2019, this adversary proceeding has been stayed pursuant to the Stay and Mediation Order.

In *The Financial Oversight and Management Board for Puerto Rico, et al v. Autonomy Master Fund Limited, et al.* (D.P.R. Case No. 19-00291, filed on May 2, 2019), the Oversight Board and the Official Committee of Unsecured Creditors commenced an adversary proceeding in the Commonwealth's Title III case against numerous parties, including FGIC and other insurers and holders of the Commonwealth's general obligation and guaranteed debt, seeking, among other things, declaratory judgments that such parties do not hold consensual or statutory liens against the Commonwealth's good faith, credit, and taxing power, available resources, allocable revenues or property tax revenues, and that such parties' claims, to the extent they are valid, are unsecured. This adversary proceeding was stayed pursuant to the Stay and Mediation Order from July 24, 2019, until December 2019 when the District Court entered an order permitting limited motions to dismiss to be filed. On March 10, 2020, the District Court set aside its December 2019 order and again stayed this adversary proceeding pursuant to the Stay and Mediation Order.

On January 31, 2020, FGIC, Ambac Assurance Corporation, Assured Guaranty Corp., Assured Guaranty Municipal Corp., and the trustee for the PRIFA bonds filed a motion in the Commonwealth's Title III case concerning application of the automatic stay to the rum tax revenues pledged to secure certain PRIFA bonds (amending the motion initially filed by Ambac on May 30, 2019, that had been stayed pursuant to the Stay and Mediation Order since July 24, 2019), seeking an order lifting the automatic stay so that the movants may pursue one or more actions in another forum to enforce the application of the pledged revenues to the payment of the PRIFA bonds or, in the alternative, requiring the Commonwealth to provide adequate protection for the movants' interests in the pledged revenues. Briefing on this motion is ongoing, and a preliminary hearing is scheduled for June 4, 2020.

11. Legal Proceedings (continued)

On January 16, 2020, FGIC, Ambac Assurance Corporation, Assured Guaranty Corp., Assured Guaranty Municipal Corp., and National Public Finance Guarantee Corporation filed a motion in the PRHTA and Commonwealth Title III cases, seeking an order lifting the automatic stay in both cases so that the movants may bring one or more actions in another forum to enforce the application of the revenues pledged to secure the PRHTA bonds to the payment of the PRHTA bonds, including by enforcing their liens on the pledged revenues, or, in the alternative, requiring the Commonwealth and the PRHTA to provide adequate protection for the movants' interests in the pledged revenues. Briefing on this motion is ongoing, and a preliminary hearing is scheduled for June 4, 2020.

On January 16, 2020, FGIC, Ambac Assurance Corporation, Assured Guaranty Corp., Assured Guaranty Municipal Corp., and the trustee for the PRCCDA bonds filed a motion in the Commonwealth's Title III case concerning application of the automatic stay to the hotel taxes pledged to secure the PRCCDA bonds, seeking an order that the automatic stay does not apply to an action that the movants may bring in another forum against the PRCCDA and certain other persons to enforce the movants' rights to these pledged hotel taxes or, in the alternative, lifting the automatic stay so that the movants may bring this enforcement action or, further in the alternative, requiring the Commonwealth to provide adequate protection for the movants' interests in the pledged hotel taxes. Briefing on this motion is ongoing, and a preliminary hearing is scheduled for June 4, 2020.

In *The Financial Oversight and Management Board for Puerto Rico, et al. v. Ambac Assurance Corporation, et al.* (D.P.R. Case No. 20-00003, filed on January 16, 2020), the Oversight Board commenced an adversary proceeding in the Commonwealth's Title III case against numerous parties, including FGIC and other insurers and holders of PRIFA bonds, seeking, among other things, a judgment disallowing each and every defendants' proofs of claim filed against the Commonwealth relating to the PRIFA bonds. Pursuant to an order entered on March 10, 2020, this adversary proceeding is stayed except to permit limited summary judgment motions. On April 28, 2020, the Oversight Board filed a motion for partial summary judgment seeking, among other things, to disallow secured claims asserted by FGIC and the other defendants on a number of theories, including that PROMESA preempts rights that FGIC and the other defendants held as secured creditors under the laws of the Commonwealth and applicable bond documents prior to the enactment of PROMESA, or alternatively that the secured claims of FGIC and the other defendants are not perfected and entitled to treatment as secured claims under PROMESA.

11. Legal Proceedings (continued)

FGIC opposes the Oversight Board's motion. Briefing on this motion is ongoing, and a hearing is scheduled for June 23, 2020.

In *The Financial Oversight and Management Board for Puerto Rico, et al. v. Ambac Assurance Corporation, et al.* (D.P.R. Case No. 20-00004, filed on January 16, 2020), the Oversight Board commenced an adversary proceeding in the Commonwealth's Title III case against numerous parties, including FGIC and other insurers and holders of PRCCDA bonds, seeking, among other things, a judgment disallowing each and every defendants' proofs of claim filed against the Commonwealth relating to the PRCCDA bonds. Pursuant to an order entered on March 10, 2020, this adversary proceeding is stayed except to permit limited summary judgment motions. On April 28, 2020, the Oversight Board filed a motion for partial summary judgment seeking, among other things, to disallow secured claims asserted by FGIC and the other defendants on a number of theories, including that PROMESA preempts rights that FGIC and the other defendants held as secured creditors under the laws of the Commonwealth and applicable bond documents prior to the enactment of PROMESA, or alternatively that the secured claims of FGIC and the other defendants are not perfected and entitled to treatment as secured claims under PROMESA. FGIC opposes the Oversight Board's motion. Briefing on this motion is ongoing, and a hearing is scheduled for June 23, 2020.

In *The Financial Oversight and Management Board for Puerto Rico, et al. v. Ambac Assurance Corporation, et al.* (D.P.R. Case No. 20-00005, filed on January 16, 2020), the Oversight Board commenced an adversary proceeding in the Commonwealth's Title III case against numerous parties, including FGIC and other insurers and holders of PRHTA bonds, seeking, among other things, a judgment disallowing each and every defendants' proofs of claim filed against the Commonwealth relating to the PRHTA bonds. Pursuant to an order entered on March 10, 2020, this adversary proceeding is stayed except to permit limited summary judgment motions. On April 28, 2020, the Oversight Board filed a motion for partial summary judgment seeking, among other things, to disallow secured claims asserted by FGIC and the other defendants on a number of theories, including that PROMESA preempts rights that FGIC and the other defendants held as secured creditors under the laws of the Commonwealth and applicable bond documents prior to the enactment of PROMESA, or alternatively that the secured claims of FGIC and the other defendants are not perfected and entitled to treatment as secured claims under PROMESA. FGIC opposes the Oversight Board's motion. Briefing on this motion is ongoing, and a hearing is scheduled for June 23, 2020.

11. Legal Proceedings (continued)

In *The Financial Oversight and Management Board for Puerto Rico, et al. v. Ambac Assurance Corporation, et al.* (D.P.R. Case No. 20-00007, filed on January 16, 2020), the Oversight Board, the Official Committee of Unsecured Creditors and PRHTA commenced an adversary proceeding in PRHTA's Title III case against numerous parties, including FGIC and other insurers and holders of PRHTA bonds, seeking, among other things, a judgment disallowing each and every defendants' proofs of claim filed against PRHTA relating to the PRHTA bonds. This adversary proceeding is stayed pursuant to an order entered on March 10, 2020.

In *Financial Guaranty Insurance Company v. Alejandro García Padilla, et al.*, (D.P.R., Case No. 3:16-cv-01095, filed on January 19, 2016), FGIC commenced an action for declaratory judgment and injunctive relief seeking, *inter alia*, to invalidate the executive orders issued by the Governor of Puerto Rico on November 30 and December 7, 2015, authorizing the Commonwealth's Treasury Department to clawback certain revenues assigned or pledged to secure the payment of bonds issued by PRIFA, PRHTA and PRCCDA, including bonds insured by FGIC, on the grounds that they are preempted by federal law and/or violate the Contracts, Due Process, Takings, and Equal Protection Clause of the United States Constitution. On January 21, 2016, FGIC's action was consolidated with an analogous action brought by Assured Guaranty Corp., Assured Guaranty Municipal Corp., and Ambac Assurance Corporation.

On October 4, 2016, the District Court entered an order denying all defendants' motions to dismiss FGIC's claims, except that it dismissed FGIC's preemption-based claim. This action was subject to the PROMESA Stay, and it is now stayed by the commencement of the Commonwealth's PROMESA Title III proceeding.

On March 16, 2017, FGIC filed a motion for leave to intervene as a plaintiff in Lex Claims, LLC, et al. v. The Commonwealth of Puerto Rico, et al., (D.P.R. Case No. 3:16-cv-02374, filed on July 20, 2016), which case was filed by a group of holders of the Commonwealth's general obligation bonds challenging, *inter alia*, the validity of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, related executive orders, and the availability of resources pledged to pay bonds issued by COFINA. Before the District Court ruled on FGIC's motion to intervene, the United States Court of Appeals for the First Circuit, on April 4, 2017, ruled that the PROMESA Stay applied to all claims asserted by the original plaintiffs in this action. Therefore, FGIC's motion for leave to intervene was similarly subject to the PROMESA Stay, and it is now stayed by the commencement of the Commonwealth's PROMESA Title III proceeding.

12. Subsequent Events

On May 7, 2020, FGIC agreed to sell FGIC UK for GBP 22.8 million, with this sale scheduled to be completed in June 2020.

Subsequent events described elsewhere in the notes to these financial statements include in Note 2, Recent Developments, information about developments concerning the COVID-19 pandemic, in Note 7, Loss Reserves, information about developments concerning FGIC's Puerto Rico-related insured exposures, and in Note 11, Legal Proceedings, information about developments concerning certain legal proceedings.

The date through which subsequent events have been evaluated is May 11, 2020.